



CREDIT INSURANCE

What You Should Know

1-800-927-HELP (800-927-4357)

www.insurance.ca.gov

800-482-4TDD (800-482-4833)

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What You Should Know

Purchasing consumer goods on credit is an everyday occurrence. Whether it is a major purchase like a home or car, or lesser purchases such as appliances, electronics, clothes, jewelry, it is very difficult to function without using some type of credit. If you use a form of credit – such as a standard credit card, a home mortgage or a credit card from a jewelry appliance or department store – chances are you will be solicited to purchase some form of credit insurance.

What Is Credit Insurance?

Credit insurance comes in a variety of forms. Typical credit insurance coverages include credit life, credit disability, involuntary unemployment, and credit property insurance. Separate coverages such as those listed above are often bundled together and marketed as one packaged product. It is possible that you will only find value in one or two of the coverage areas. In that case, you can select the coverage areas you need and drop the rest. The only exception is that you must buy credit life coverage if you wish to purchase any credit disability coverage. Credit disability coverage has to be bundled with credit life coverage and cannot be sold separately.

- **Credit Life Insurance** is a type of life insurance that pays off the debt you owe on a credit account or mortgage in the event of your death. The payment from the insurance company reflecting the payoff balance of your account or loan always goes to the lender who is named as the beneficiary of the policy. You cannot name a spouse, family member, or friend as a beneficiary to a credit life insurance policy.

- *Credit Disability Insurance* helps to secure your favorable credit rating by covering your minimum monthly credit account payment during a period of documented medical disability. Since it is common for policies to contain a maximum time period for continuing payment benefits, it is likely that your entire balance will not be paid off. Moreover, as interest and insurance charges continue to add up throughout the period of your disability, it is possible that you may owe more money on your account after your disability than you did before, depending upon your original balance. Generally, you will not be covered for any additional purchases made after the onset of your disability.
- *Involuntary Unemployment Insurance*, like credit disability insurance, makes your minimum monthly credit account payment during a period of involuntary unemployment, such as a layoff or downsizing. The limitations noted with credit disability insurance as defined above are also applicable to involuntary unemployment insurance. It is possible that your entire balance will not be paid off, and it is possible that you may owe more money after unemployment ends than you did before, even though the insurance company was making your minimum monthly payment.
- *Credit Property Insurance* cancels the debt you owe on items purchased on an insured credit account if the property purchased is destroyed by specific named perils such as an accident, theft, flood, or earthquake. Unlike most property insurance, you do not have to pay a deductible up-front when submitting a claim. Deductibles are not used in credit property insurance.

Regardless of the particular type of credit insurance you purchase, it is always important to read and understand the policy, so you will know the full details of your coverage. While credit insurance provides a number of protections, it is necessary to know exactly what you are being offered in order to understand if this type of protection is the best to satisfy your immediate and future needs.

How Is Credit Insurance Marketed?

Several methods are used to market credit insurance to consumers. The two most common methods involve signing for credit insurance when filling out a credit application or receiving telemarketing calls after an application for credit has been approved. Since certain elements in the transaction can create a gap in time between the initial purchase of the credit insurance and the billing that follows on your credit statement, many consumers are surprised at what they have purchased when reviewing their credit billing statement.

Frequently, credit insurance is offered with an introductory “free-look” period that can last anywhere from 30 to 90 days. It’s possible that if you agree verbally to take credit insurance during a telemarketing call or by signing the credit insurance box on a credit application at any retail store, you may not remember the contractual arrangement you have made. When the payment is charged to your credit account after the free-look period expires, you may have forgotten about your credit insurance purchase.

When taking out credit it is essential to read the application carefully. Do not mistakenly sign up for credit insurance thinking that you have only signed for the credit account. It is important that you are fully informed about the credit insurance you are being offered before you sign any application or give your verbal “okay” over the phone. In telemarketing situations, it may be especially difficult for some consumers to say “no” to telephone solicitors. However, if you do not want credit insurance or you do not have enough information to make an informed decision, you must say “no,” as any other answer (no matter how reluctant) will start this coverage. Many consumers believe that an insurance policy cannot be sold without a signature. This is not true. It is advisable to carefully listen to telemarketers and to read credit applications to determine if you want credit insurance or not. If you discover that you have mistakenly taken

out credit insurance, you should terminate it before the free-look period is over and you begin to be billed on your credit account. Refer to the “Is It Difficult to Cancel a Credit Insurance Policy?” section of this brochure.

By using retail stores, banks, and credit card companies in marketing credit insurance, the insurance companies reach the majority of consumers who rely on credit. Your creditors are motivated to sell you credit insurance because they earn money with each credit insurance product sold, and the credit account they offer you is protected should you be unable to make credit payments under the specific conditions of the credit insurance policy.

Does Credit Insurance Meet My Needs?

Before purchasing any type of life or disability insurance policy, it is wise to take the time to carefully consider your current financial needs and plan for your financial future. In this process you may decide to seek the assistance of a licensed insurance agent or broker or a certified financial planner. Since credit insurance is designed to protect your credit accounts or your mortgage only, it may not be as flexible as a traditional life or disability insurance policy. If you have several credit accounts and decide to take out credit insurance on each account, this may not be as cost effective as purchasing a traditional life or disability insurance policy. Compare the flexibility and cost of the benefits between credit insurance and traditional life and disability insurance in order to make an informed purchasing decision.

What Are the Policy Qualifications and Limitations?

When purchasing insurance it is your responsibility to carefully review the policy language to ensure that you understand the policy qualifications, exclusions, and limitations. Since credit insurance is sold without a comprehensive application or screening process, it is necessary for you to make sure that you qualify for the coverage you are purchasing when the policy arrives. Often the only criterion used by insurance companies to sell you credit insurance is that you have some type of credit, loan, or deposit account. Many people do not qualify for all the types of credit insurance that may be bundled together. For example, you must typically be gainfully employed to qualify for involuntary unemployment insurance, yet most credit insurance applications or telemarketers do not ask for your employment status when selling this type of credit insurance. With credit life insurance, many companies impose a benefit cutoff at a specific age. Like involuntary unemployment insurance, most credit insurance applications or telemarketers do not ask for your age when selling this type of credit insurance.

Do not unwittingly agree to pay for any type of insurance for which you do not qualify. Research all requirements and qualifications carefully, including waiting periods and preexisting clauses common with credit disability insurance. You should be completely clear on how each credit insurance policy works and any special claim procedures or limitation clauses before you decide to purchase and retain a credit insurance policy.

Is It Difficult to Cancel a Credit Insurance Policy?

Once you have passed the free-look period, it becomes more difficult to cancel a credit insurance policy. Some consumers have difficulty locating contact information to cancel a credit insurance policy because the insurance company is not the original lender, store, bank, or credit card company. Also, it is common for retail store accounts to be handled by a separate finance company unrelated to the original retail store, so you may be unable to recognize the credit account the insurance is covering. Understandably, it can be very confusing to figure out the right company to call or write in order to cancel a policy.

If you are experiencing difficulty with a credit insurance company and believe you are being treated unfairly, please contact the California Department of Insurance through any of the ways listed in the following “Talk to Us” section of this brochure.

Talk to Us

Do you have a question, comment or concern?
There are several ways to talk to us:



- Call our Consumer Hotline at (800) 927-HELP
- Telecommunication Device for the Deaf dial (800) 482-4TDD
- Telephone lines are open from 8:00 AM to 5:00 PM Pacific Time, Monday through Friday, excluding holidays



- Write: California Department of Insurance
300 South Spring St., South Tower
Los Angeles, CA 90013



- E-mail us through our Web site at:
www.insurance.ca.gov



- Visit us in person on the 9th Floor at the address above. Office Hours: Monday through Friday 8:00 AM to 5:00 PM Pacific Time, excluding holidays